



### Start with the basics

1. Assess the market
2. Review regulations
3. Estimate costs and revenue
4. Market and merchandize

# Starting a Home-Based Food Business in Iowa

If you enjoy working with food and are known among family and friends for a special food item, starting a home-based food business may be right for you.

Succeeding in business requires a combination of having the right product at the right time in the right place—plus hard work, good decision making, and a willingness to work with people.

Good business skills also are needed: ability to plan, organize, control, manage, and market. An understanding of state licensing requirements, zoning laws, insurance protection, income tax implications, and other legal issues also is critical.

This publication provides basic information about getting started and how to address essential elements of a business plan.

## Action Step 1: Assess the Market

The product you sell should fill a need (perhaps yet not identified as a need). Look for gaps in product lines and consider ways you can fill them. For example, could your home-baked kringla be sold through a local restaurant or grocery store?

Once you determine a possible product, be sure you can consistently produce the same quality each time it is prepared. Standardized recipes are critical to ensure this consistency and to maintain cost control.

Conduct your own market research. Prepare samples and ask family, friends, neighbors, and strangers if they would purchase your product, how much they would be willing to pay for it, and how frequently they would purchase it.

Contact a local restaurant or grocery store to assess their interest and find out what requirements they have for vendors.

Potential buyers of your product(s) may require any or all of the following:

- product liability insurance (in case someone becomes ill from the product)
- personal liability insurance (in case you are negligent)
- automobile insurance (if your vehicle is used to make deliveries)
- workers' compensation (if you hire employees)

Determine your unique competitive advantage.

- Are you selling a quality specialty food item (such as kringla)?
- Is your product made from only the highest quality premium ingredients (such as seasonal pies made from fresh fruits)?
- Is your product uniquely presented (such as lattice pie crusts or extra large cookies)?

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## Making Salsa or BBQ Sauce?

Processing of low-acid foods by retort canning or processing of acidified foods is not allowed by a home food establishment.

These products must be commercially processed to achieve and maintain commercial sterility under conditions of non-refrigerated storage and distribution.

Processing of these food products without the appropriate license is a violation of state law and the Federal Food, Drug, and Cosmetic Act. A food processing plant license from the state is needed.

All processed foods sold to restaurants, grocery stores, or institutions (for example, salsa or BBQ sauce) must be processed in a state licensed food processing plant. See box on page 4 about meat and poultry products.

For more information, contact the Department of Inspections and Appeals:

**[www.dia.iowa.gov](http://www.dia.iowa.gov)**  
(Click on inspections.)

## Action Step 2: Review Regulations

Based on the type of food prepared, food businesses in the home are subject to various licensing and inspection standards. Licenses are required for each of the different types of home-based food businesses:

- Home food establishment
- Food service establishment (catering)
- Retail food establishment
- Food processing plant

A **home food establishment** means a business on the premises of a residence in which prepared foods (bakery items only) are created for sale and the food is consumed off the premises.

*Prepared food means soft pies, bakery products with a custard or cream filling, or any other potentially hazardous baked goods (requires refrigeration to 41°F or below after preparation). Prepared food **does not mean** nonhazardous baked goods, including but not limited to breads, fruit pies, cakes, or other nonhazardous pastries. (See [www.iowafoodsafety.org](http://www.iowafoodsafety.org) or [www.dia.iowa.gov](http://www.dia.iowa.gov) for more information.)*

- Annual gross sales of these products cannot exceed \$20,000.
- The license holder must maintain a record of sales and must make this record available when requested by the Department of Inspections and Appeals Food Safety Bureau representatives.
- The current license fee is \$33.75 annually and is renewable each year. Any license not renewed after 60 days of expiration will be posted closed and not reopened until a new license application is submitted and approved. License fees are the same for an initial license and a renewal license.
- A home food establishment license is not transferable; if your operation changes location, a new license is needed.

## Exceptions to Home Food Establishment License Requirements

- Residences where food is prepared to be used or sold by churches, fraternal societies, or charitable, civic or nonprofit organizations are not included.
- Residences which prepare or distribute honey, shell eggs, or nonhazardous baked goods are not required to be licensed as home food establishments.

A **food service establishment** is defined as an operation that stores, prepares, packages, serves, and provides food for human consumption. Catering operations are considered a food service establishment.

- License fees are based upon the annual gross food and beverage sales of the food establishment. For example, the current license fee for a food service establishment where food is prepared or served for individual portions, intended for consumption on the premises, and with gross sales of under \$50,000 annually is \$67.50.

A **retail food establishment** or a **food processing plant** license is needed for home-based food businesses that exceed \$20,000 in sales annually. Both require a separate, self-contained food preparation area.

- A **retail food establishment** sells food or food products intended for preparation or consumption off the premises. The majority of sales are to consumers—not to other stores or restaurants. A license fee for an establishment with annual gross sales of \$20,000-\$250,000 is currently \$101.25 annually.
- A **food processing plant** is a commercial operation that manufactures, packages, and labels food for human consumption but does not provide food directly to a consumer. The license fee for an

establishment with annual gross sales of less than \$50,000 is currently \$67.50 annually.

### **Product Labeling Requirements**

Labeling helps establish your business name and product recognition as well as providing information about product ingredients. This is particularly important for those who have food allergies. Labels on food products sold in Iowa must include these facts:

- The common name of the product
- All ingredients in the food product, listed in order of predominance by net weight
- The quantity of the package contents in terms of weight, measure, or numerical count
- The name and address of the person(s) preparing the food
- The use of common allergens (milk, eggs, peanuts, tree nuts—almonds, pecans, walnuts), seafood, soybeans (not refined soybean oil), and wheat.

More stringent requirements must be met for establishments involved in interstate commerce and if certain “health” or “nutrient content” claims (such as low-fat) are made.

### **Equipment and Training Requirements**

- Brand new kitchen equipment is not needed, but all food contact surfaces and equipment should be of material that is non-porous, easily cleaned, and approved for food contact (this avoids any contamination or toxicity).
- All ingredients used in the food products must come from a licensed or approved source except most fresh fruits and vegetables and honey. Whole, uncut fruits and vegetables and honey do not have licensing requirements for vendors of these

products. (For more information, see “Buying Local Foods for Retail Foodservices” PM 2047.)

- All food products and ingredients should be stored in original containers, or in a labeled container that protects the integrity of the food.
- Foods should be stored in protected areas at the correct temperatures (less than 41°F for refrigerated foods or above 135°F for hot foods away from contaminants). (For more information, see “Thermometer Use in Retail Food-service Establishments” PM 2083.)
- The food preparation area should be self contained and separate from the family kitchen with no access by pets or other animals. A pest control program should be in place.
- All facilities must have hot and cold potable water plus restroom facilities complete with hand washing equipment and supplies.
- Separate sinks must be designated for hand washing, food preparation, and cleaning purposes. This is not a requirement for operations with a home food establishment type of license.
- All food utensils and equipment used in food preparation must be cleaned and sanitized regularly and properly.
- All those who work with food (preparation or service) must be free from communicable diseases and keep themselves and their clothing clean. Hair should be restrained and hands washed frequently (For more information, see “SafeFood is YOUR Job—Health and Hygiene Tips for Food Handlers,” PM 1419 and “Glove Use in Retail Foodservice Establishments, PM 2070.)



### **Meat and Poultry Products**

The production of meat and poultry products offered for sale—or businesses that offer services such as custom processing of livestock or poultry—cannot be conducted as home-based businesses.

Meat and poultry must be processed and produced at either a federally inspected (USDA/FSIS) or state inspected (Iowa Department of Agriculture and Land Stewardship [IDALS]) establishment or a retail facility licensed by Iowa Department of Inspections and Appeals.

Processing of meat and poultry products without the appropriate license is a violation of state law and the Federal Wholesome Meat Act and the Federal Poultry Products Inspection Act. A grant of inspection from USDA/FSIS or IDALS and/or a license from the state is needed.

For more information on this type of business, contact the Meat and Poultry Bureau of the Iowa Department of Agriculture and Land Stewardship (IDALS):

**515-281-3338**

**[www.iowaagriculture.gov/  
meatAndPoultryInspection.asp](http://www.iowaagriculture.gov/meatAndPoultryInspection.asp)**



### **Action Step 3: Estimate Costs and Revenue**

No business succeeds without balancing costs and revenue. Figuring both on the basis of unit of sales (for example one dozen cookies) is a useful method.

#### **Costs include**

- food ingredients
- labor costs (time invested in purchasing ingredients and in preparing, packaging, and delivering product)
- liability protection
- employment taxes and benefits (if provided)
- equipment and facility investments
- marketing and merchandising
- delivery vehicle insurance and maintenance
- utility costs

As an owner, you may be willing to invest in your business by not working for full pay. However, it is important to truly assess all costs or inputs required to produce the product in order to ensure an adequate price point is set.

**Revenue estimates** are based on product price and number of units sold. Pricing products is a critical step. Pricing too low means you may not recover all true production costs; pricing too high may mean losing your market.

One way to start is by investigating prices on comparable products. Will a similar price for your product cover your costs? If not, can you justify the premium value of your product so potential buyers are willing to pay more? For example, preliminary research has found people will pay more for a known source of ingredients, production practices and location, or as part of an experience.

Another consideration is sales volume. Unless you are operating on an as-ordered basis, how likely is that you will sell all of the prepared product? Obviously, this is an important consideration for perishable foods.

### **Action Step 4: Market and Merchandize**

A market plan includes many elements, including promotion of your products.

- Attractive merchandizing is important because many purchasing decisions are based on the senses. An appealing appearance (package and display) and aroma (who can resist the smell of fresh baked bread?) are powerful.

- Letting people know about your product can be as simple as telling a friend who tells a friend. Or, it can be a more sophisticated application of the same concept. For example, one restaurant owner targeted a soft opening to the hair stylists in his town; they spread the word to their client base. Publicity also can involve advertising through formal channels, such as paid newspaper ads and radio or TV announcements.

- For home-based businesses tapping into a niche market, one key feature is to tell your story. Distributing free samples with a business card to potential buyers is another strategy. Work with economic development groups in your region or other organizations that promote small businesses. The important thing is to decide what works best for your product and for you.

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### **For More Information**

#### **...about business management and marketing**

Iowa Small Business Development Centers  
[www.iowasbdc.org](http://www.iowasbdc.org)

Iowa State University Extension Distribution Center  
[www.extension.iastate.edu/store](http://www.extension.iastate.edu/store)

*(Under Topic List, first select "Community Economic Development" then select "Retail/Trade")*

Iowa State University Pappajohn Center for Entrepreneurship  
[www.isupjcenter.org](http://www.isupjcenter.org)

#### **...about food production and food safety**

Iowa State University Extension Food Safety Project  
[www.iowafoodsafety.org](http://www.iowafoodsafety.org)

Iowa State University Hotel Restaurant and Institution Management Extension  
[www.extension.iastate.edu/HRIM](http://www.extension.iastate.edu/HRIM)

#### **...about licensing requirements**

Dept. of Inspections and Appeals Food Bureau, Lucas Bldg. State Capitol, Des Moines, IA 50319  
**515/281-6538**  
[www.dia.iowa.gov](http://www.dia.iowa.gov)

(Also check local city and county offices)

#### **... and justice for all**

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